



Financial Reporting Advisory Board Paper

Whole of Government Accounts 2011-12: key messages, action being taken on qualifications, and use of the accounts

Issue:	Audited Whole of Government Accounts (WGA) for the financial year 2011-12 were published on 17 July 2013 along with a short summary document designed to increase accessibility of the information contained within the accounts. The Public Accounts Committee also held a hearing on WGA 2011-12 on 21 October 2013, at which HM Treasury officials were questioned on the content of the accounts and how they have been used across government. This paper provides the Board with an overview of the accounts, the actions being taken to remove qualifications, and how the accounts are being used as part of its approach to public finance management.
Impact on guidance:	None
IAS/IFRS adaptation?	Not applicable
Impact on WGA?	Not applicable
IPSAS compliant?	Not applicable
Interpretation for the public sector context?	Not applicable
Impact on budgetary regime?	Not applicable
Alignment with National Accounts	Not applicable
Impact on Estimates?	Not applicable
Recommendation:	The Board notes the publication of audited Whole of Government Accounts (WGA) for the financial year 2011-12, the efforts that are being made to reduce the qualifications of the account, and the direct use that is being made of WGA as part of HM Treasury's wider approach to public finance management.
Timing:	For information only

DETAIL

Background

1. Audited Whole of Government Accounts (WGA) for the financial year 2011-12 were published on 17 July 2013 along with a short summary document designed to increase accessibility of the information contained within the accounts. This was a significant improvement in timeliness with the accounts being published three and a half months earlier than the previous year.

2. The Public Accounts Committee held a hearing on WGA 2011-12 on 21 October 2013 at which Karen Sanderson (Deputy Director, Government Financial Reporting), Sharon White (Director-General, Public Spending and accounting officer for WGA) and Sir Nick Macpherson (Permanent Secretary of HM Treasury), were questioned on the content of the accounts and how they have been used across government.

3. This paper provides the Board with a summary of the financial position and performance shown in WGA 2011-12, what actions are being taken to reduce the qualifications to the accounts, and how the accounts are being used by the Treasury as part of its approach to public finance management.

2011-12 WGA financial summary

4. The summary key facts and figures document for WGA produced by HM Treasury has been provided with this paper. The third audited WGA is allowing useful trend data to develop, and for the first time it has been possible to see the results of policies pursued by the Coalition Government really begin to be reflected in the figures. The key financial highlights from WGA 2011-12 are noted below

Revenue

5. Total revenue amounted to £617bn in 2011-12 compared with £614bn in 2010-11. Tax receipts accounted for 85% of the total receipts, the remaining 15% mainly comprising of the sale of goods and services in local authorities and revenue streams earned by public corporations. Tax Revenue increased by £8.3bn (1.2%) from £515.4bn in 2010-11 to £523.7bn in 2011-12. The increase was primarily driven by an increase in VAT receipts (11%) following the rise in the VAT rate and local government taxes (4%) driven by an 11% increase in business rates. Receipts in corporation tax reduced from £45.7bn in 2010-11 to £40.0bn in 2011-12, a reduction of 13%. This is the largest item offsetting increases in receipts.

Expenditure

6. Total expenditure in 2011-12 was £715.1bn compared with £624.9bn in 2010-11. Whilst this was £90.2bn higher (14%) than 2010-11, total expenditure in 2011-12 was £36bn lower than 2010-11 when excluding the one off adjustment arising from the Chancellor's decision to index pension payments from 2010-11 using CPI rather than RPI. The table below provides a summary of expenditure on main headline items.

	2010	2011	2012
Social security benefits	197	204	210
Purchases of goods and services	161	159	152
Wages and salaries	152	153	149

Grants and subsidies	66	68	62
Other expenses	43	79	75
Direct Spend	619	663	648
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Expenditure relating to revaluations	48	-38	67
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Total operating expenditure	667	625	715
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Table summarising expenditure – all in £bn:

7. Direct spend is a new concept for the 2011-12 WGA and has been used to highlight spend on items of expenditure related to the direct delivery of Governments policies.

- Social security benefits increased by £5.7bn (3%) due to the annual uprating of benefits, pensions and tax credits, an increase in the number of pensioners and the number of families in work receiving tax credits, and higher rents leading to an increase in housing benefit payments.
- Goods and services were purchased to meet operational requirements and included maintenance of buildings such as schools and hospitals, maintenance of the London underground network, purchase of equipment for armed forces, materials for schools and medicines and administrative costs such as rent and utilities. The reduction of £7.2bn (5%) directly reflects the fiscal tightening brought about through austerity measures pursued in the 2010 Spending Review.
- The reduction in staff costs of £4.1bn (2.7%) also reflects the impact of austerity measures notably falling staff numbers and pay restraint.

Government Assets

8. Total assets owned by Government amounted to £1,268bn as at 31st March 2012. Of this total, £745bn related to property, plant and equipment, £142bn to trade and other receivables, £121bn to loans and deposits with banks, £41bn to equity investment in public sector banks, £33bn to student loans and £186bn to other.

- Property, Plant and Equipment: Included £348bn of land, buildings and dwellings, £269bn of infrastructure and £35bn of military equipment
- Trade receivables included £23bn tax due that has been advised to the taxpayer and £85bn of tax due but not yet advised to the taxpayer.
- Loans and advances to banks included £51bn of loans made to banks and other financial services entities by HMT and a further £40bn of reverse repurchase agreements made by the Exchange Equalisation Account.

Government Liabilities

9. Total liabilities were £2,615bn, up from £2,420bn in the previous year. The largest components were the net public sector pension liability of £1,008bn, government borrowing of £966bn, deposits by banks of £266bn, trade and other payables of £155bn, and provisions of £113bn.

- Pensions – more than half of the liability relates to the Teachers and NHS pension schemes. The liability increased by £47bn from 2010-11 mainly due to interest costs and increased liabilities arising from employees' employment.
- Government borrowing of £966bn comprises of gilts, T-bills and National Savings and Investments products. Over the past three years Government borrowing in

WGA has increased from £782bn in 2009-10 to £908bn in 2010-11 and as noted £966bn in 2011-12.

Contingent Liabilities

10. Contingent liabilities have doubled from £49.5bn in 2010-11 to £100.8bn in 2011-12. The most significant reason for this was due to a £30bn increase in the contingent liability related to capital that the UK may be called on to provide to the European Investment Bank (EIB) should the EIB call upon each member state to pay its share of subscribed capital. A further major increase was £15bn related to the potential loss of tax revenue from oil and gas field decommissioning.

Addressing qualifications

11. The 2011-12 accounts were qualified on six grounds. The WGA team in HM Treasury continues to work with colleagues from across the public sector in order to address issues on which the accounts are qualified, with the hope of resolving them either in part or fully. HM Treasury is aware that fewer qualifications will increase the trust that can be placed in the accounts by users, and this will ultimately make the document more useful for accountability and decision-making purposes.

12. The qualifications the actions being taken to address them are as follows:

(i) The Boundary and the non-inclusion of all public sector entities within WGA

Qualification - In determining the boundary for the whole of government, the Treasury has adopted the classifications of public bodies used by the Office for National Statistics, rather than applying accounting standards which require including bodies that are subject to government control, where control is defined as 'the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities'. This leads to the non-consolidation of a number of entities, the most material of which is National Rail. HM Treasury also excludes certain entities from WGA that are classified as public bodies by the ONS as they would severely distort the accounts. This includes the Royal Bank of Scotland.

How being addressed - From 2013-14, HM treasury plans to include those banks that will remain in the public sector as part of UK Asset Resolution Ltd, managing disclosure in line with HM Treasury Resource Accounts. This will leave remaining issues around the public sector banks (RBS and LBG), where it is still the government's intention to return these to the private sector as soon as is practicable and where it is deemed inclusion in WGA would distort the accounts. There is currently no intention to change from the approach of using the ONS classification of public bodies to determine the boundary. With respect to Network Rail in particular, the national accounts classification of Network Rail outside of the public sector remains under scrutiny, and HM Treasury will continue to monitor the position with the current framework and with European System of Accounts development.

(ii) Accounting policies/frameworks

Qualification - these is an outstanding material misalignment on highways infrastructure assets. Highways infrastructure assets remains the material outstanding issue where central government uses depreciated replacement cost, and local authorities use historic cost.

How being addressed - Unaudited depreciated replacement cost data has been requested from local authorities for highways infrastructure assets for 2012-13, but concerns about the

completeness will remain until the CIPFA Code requires the consistent treatment. We will review 2012-13 data quality in advance of setting 2013-14 mandatory WGA reporting.

(iii) 3G

Qualification - there is a remaining disagreement with the NAO about the application of accounting standards related to this sale.

How being addressed – HM Treasury will continue to work with the NAO in an attempt to agree the treatment of 3G, drawing on developments to IFRS revenue recognition standards and private sector advice where appropriate. Similarly, we will also work to agree the treatment of 4G, where there is an opportunity to understand the substance and form of the contracts from the outset.

(iv) Intra-government transactions and balances

Qualification - whilst the vast majority of these transactions and balances were eliminated, the data was not available to eliminate below materiality thresholds.

How being addressed - Continued work to improve the quality of the underlying data led to a more complete elimination of counterparty transactions in 2011-12 (a further £7.6bn or 33% was eliminated in 2011-12 compared with 2010-11). HM Treasury continues to take steps to improve the quality of guidance and controls in the 2012-13 data collection packs to deliver further improvements, such as the use of mail merge to systematically communicate inter-company transactions and balances to relevant entities. HM Treasury is also drawing on local government expertise to assist the central elimination exercise.

(v) Academies/school assets

Qualification - there was data missing from foundation and voluntary aided schools and voluntary controlled schools, insufficient evidence to establish the correct value of academy land and building assets, and insufficient evidence to support the academy income and expenditure reported.

How being addressed - Considerable work has been carried out with the Department for Education, and in particular the Education Funding Agency to improve the quality of academies data. Some of the benefits of this work were seen in the 2011-12 account, but this was countered by the scale of the conversion from maintained school status. Until a steady, lower rate of Academy conversion develops this issue is likely to continue to adversely impact the earlier publication of Department for Education resource accounts and WGA. Separately, work is ongoing to examine the nature of the relationship that Foundation and Voluntary Aided and Voluntary controlled schools have with central and local government, to determine their treatment in WGA. This working group is expected to report its findings later this year.

(vi) Underlying qualifications

Qualification - In 2011-12 the MOD qualification on inventory valuation and lease recognition, and the qualification to the civil service superannuation fund on their pension liability were material to WGA.

How being addressed - Treasury works with central government bodies to support them as they resolve their qualifications, but the primary responsibility lies with each individual entity. Treasury officials are proactively working with both MoD and the civil service superannuation scheme to resolve long-standing audit qualifications. The Treasury does not have a direct relationship with

bodies outside of central government e.g. local authorities and devolved administrations. To date qualifications in these sectors have not impacted WGA.

Use of accounts by HM Treasury as part of its approach to public finance management

13. The Treasury is actively using WGA as part of its wider approach to public finance management. While national accounts measures remain the primary focus as this is how fiscal performance and position are measured, WGA as noted by Sir Nick Macpherson at the recent PAC hearing adds a lot of value to the interpretation of the Government's fiscal position especially in the area of long-term liabilities, provisions and other "off-balance sheet" items.

14. In areas like clinical negligence, the additional profile that WGA has given to underlying figures published in individual entity accounts has led to a greater focus by the Treasury in managing the provisions. As also explained to the PAC by Sharon White, WGA has exposed cross-Government issues such as the level of fraud, error and debt that is leading to action being taken, with the founding of a taskforce chaired by the Minister for the Cabinet Office with officials from across government and external experts

15. Furthermore, the accounts are being used by key external stakeholders to raise understanding of the public finances. In addition to the interest taken by the PAC, the OBR for example have used WGA as a key source to produce their July 2013 fiscal sustainability report, evaluating the potential future fiscal impact of activities already undertaken by Government and comparing the Government's financial position and performance on a national accounts versus IFRS basis.

16. On a day-to-day basis, however, the most encouraging sign is that with the support of professional finance policy advisors from the Public Spending Group, WGA is being used by Treasury spending teams to challenge departmental spending and forecasts and to engage in active balance sheet management. The 2013 Spending Round saw WGA data being used to review public sector holdings of property, plant and equipment and financial assets to identify where efficiencies could be achieved or surplus assets sold for the benefit of the taxpayer. In light of this the Government announced an ambitious target for central government to deliver at least £15 billion of asset sales between 2015 and 2020, which will comprise of at least £5 billion of land and property to support growth and drive efficiency, and at least £10 billion of corporate and financial assets, which will contribute to the Government's aim to reduce public sector net debt. More generically the 2013 spending round also saw the spending teams for the major departments using WGA and departmental accounts data to investigate specifically:

- Provisions – what was driving the need for provisions and whether the department were making sufficient interventions to minimise future liabilities;
- Contingent liabilities – how these were being managed and what might influence whether they crystallise in the future;
- Debtors – the efficacy by which these were being managed and how good management could be incentivised;
- In the case of MOD intangible assets to understand the extent to which these might be commercial assets which could be exploited; and
- Assets – understanding how assets were being utilised and their role in delivering the government's objectives.

A process of developing financial skills widely in spending teams will ensure that WGA, Department Annual Report and Accounts, and other financial information will be more readily understood and put to direct practical use in managing the public finances.

Recommendation

17. HM Treasury requests that the Board notes the publication of audited Whole of Government Accounts (WGA) for the financial year 2011-12, the efforts that are being made to reduce the qualifications of the account, and the direct use that is being made of WGA as part of HM Treasury's wider approach to public finance management.

HM Treasury

13 December 2013